IWC

IWC Industries Limited • Annual Report

For the year ended March 31, 1971

IWC Industries Limited

6205 Airport Road, Mississauga, Ontario

DIRECTORS

C. P. CLARE *President, C. P. Clare & Co.*
P. M. FORAND *President, Forano Ltd.*
R. M. IVEY, Q.C. *Ivey & Dowler*
A. D. RUSSEL *President, Hugh Russel & Sons Ltd.*
L. F. STEVENS, F.C.A. *Executive Vice-President, Allpak Products Ltd.*
J. G. TORRANCE, Q.C. *Wahn, Mayer, Smith, Creber, Lyons, Torrance & Stevenson*
G. D. ZIMMERMAN *President*

OFFICERS

G. D. ZIMMERMAN, P. ENG. *President*
D. C. CLELAND, B.A., C.A. *Treasurer*
J. G. TORRANCE, Q.C. *Secretary*

AUDITORS

PRICE WATERHOUSE & CO. *Toronto, Ontario*

SOLICITORS

WAHN, MAYER, SMITH, CREBER,
LYONS, TORRANCE & STEVENSON *Toronto, Ontario*

TRANSFER AGENT

GUARANTY TRUST CO. OF CANADA *Toronto, Ontario*

STOCK LISTING

TORONTO STOCK EXCHANGE

REPORT TO SHAREHOLDERS

While the past year has produced little in the way of startling corporate news it has nonetheless been one of considerable activity. Despite the economic doldrums, we made significant improvements in operations and consummated two worthwhile acquisitions.

Financial

Consolidated sales increased by approximately 20% due in part to the higher revenues generated by Noram Communications and the consolidation of Sarnia Broadcasting. Earnings before extraordinary items were improved and funds generated from operations were up 40% over the previous period.

Further provisions for losses on foreign exchange were provided at year-end. At this date the U.S. dollar has strengthened to the point where a portion of this provision may not be required. Early in the year we wrote off costs associated with cable television license applications in which we were unsuccessful or which we abandoned.

Financially the company is in a strong position. Present working capital exceeds the current demands of our operating companies. Improvements in cash flow are anticipated in the coming year. Capital expenditures should be substantially lower.

Operations

Lacal Industries showed considerable progress under the direction of its new General Manager and Vice-President, Robert Hipwell. In spite of slightly lower sales due to a poor fourth quarter, Lacal's earnings were significantly better than the previous year. Current order intake and backlog augur well for this year.

Noram Communications experienced a difficult year in the face of tight money and the slack construction conditions prevailing in the CATV field. Losses were particularly onerous during the first nine months. Efforts to diversify into related fields are proving successful. Operations have been relocated in a new, modern building in Mississauga adjacent to our cable TV system. Current operations are on the upturn. We expect an important contribution from Noram to our corporate earnings in the current year.

Sarnia Broadcasting continued its historic pattern of steady growth in its market. We confidently expect a continuance of its favourable results this year.

Terra Communications had an exciting year of community involvement climaxing in the second annual "Terrawards" presentations. The gala evening was attended by several hundred Mississauga residents with representatives from all age groups and walks of life. During the year Terra completed the construction of its plant in the limited area for which it was granted a license. Its ambitious local origination programming and community involvement has been sincerely appreciated by those to whom the service is available. It has in fact, acted as a stimulus to the other residents of Mississauga in pressing for an extension of cable service into their unlicensed areas. Terra has an application on file with the Canadian Radio-Television Commission covering unlicensed territory in its immediate environs. We expect a hearing on this matter before the CRTC in the near future and are hopeful our application for an expanded area of reasonable size will be dealt with favourably. Certainly Terra's present service area is too small to be economically viable.

During the year we acquired a 50% interest in Barrie Cable TV and Orillia Cable TV. Both of these systems have been in operation for approximately ten years. These properties were acquired in conjunction with Countryside Holdings Limited and we jointly operate them under their previous management which had established an enviable record of profitable and efficient performance. Revenues of Barrie and Orillia are not consolidated as we do not control these companies; 50% of the net earnings after tax are reflected in our statements.

Outlook

In the current year we are anticipating expanded operations and increased profitability in all subsidiaries. In view of our strong financial position and the growth potential underlying our present operations, we are extremely optimistic for the future.

We wish to extend to our employees the sincere appreciation of the Directors for their efforts during the past year. In particular, we take this opportunity of publicly acknowledging our gratitude to Mr. Carl Clare and Mr. Paul Forand for the many years of service they have rendered to our Company as Directors. For separate but compelling personal reasons they tendered their resignations in June of this year.

G. D. ZIMMERMAN President

IWC Industries Limited
and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	Year ended March 31 1971	1970
Net sales	$ 7,432,558	$ 6,188,685
Investment income	255,472	256,325
	7,688,030	6,445,010
Cost of products sold and all expenses except items shown below	7,120,987	6,069,676
Depreciation	374,191	266,523
Interest, including in 1971 $18,443 on long-term liabilities	92,268	24,487
	7,587,446	6,360,686
Earnings before income taxes and extraordinary items	100,584	84,324
Income taxes	34,000	42,000
Earnings before extraordinary items	66,584	42,324
Foreign exchange loss on U.S. dollar deposits less income taxes	(24,043)	(100,000)
Costs associated with cable television licence applications less income taxes (Note 4)	(65,351)	—
Proceeds of insurance claim in excess of cost of assets destroyed	31,963	—
Profit on sale of wire and cable business	—	2,068,546
Net earnings for the year	9,153	2,010,870
Retained earnings at beginning of year	4,119,261	2,108,391
Retained earnings at end of year	$ 4,128,414	$ 4,119,261

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended March 31 1971	1970
Source of funds:		
Net earnings before extraordinary items	$ 66,584	$ 42,324
Items not involving a current cash outlay or receipt— Depreciation	374,191	266,523
Deferred income taxes	(4,750)	(17,000)
Share of earnings of 50% owned companies less dividends received	(26,131)	—
	409,894	291,847
Proceeds of insurance claim in excess of cost of assets destroyed	31,963	—
Net funds provided on sale of wire and cable business	—	5,258,394
Common shares issued	—	1,014,420
Increase in long-term liabilities	—	853,601
	441,857	7,418,262
Application of funds:		
Additions to fixed assets	722,590	823,010
Purchase of businesses, net of working capital	—	1,192,544
Purchase of shares in 50% owned companies	469,600	—
Reduction of long-term liabilities	112,120	592,171
Deferred charges less amount written off	54,120	140,557
Foreign exchange loss on U.S. dollar deposits	24,043	100,000
Miscellaneous, net	15,624	7,469
	1,398,097	2,855,751
Increase (decrease) in working capital	(956,240)	4,562,511
Working capital at beginning of year	4,701,539	139,028
Working capital at end of year	$ 3,745,299	$ 4,701,539

See accompanying notes to financial statements.

IWC Industries Limited
and subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	March 31 1971	1970
CURRENT ASSETS:		
Cash including bank deposit certificates	$ 1,735,013	$ 3,267,862
Marketable investments at cost (Market value $1,027,500)	1,013,313	—
Accounts receivable	1,504,122	1,519,686
Inventories (Note 2)	2,261,101	1,777,295
Deposits and prepaid expenses	231,706	262,529
	6,745,255	6,827,372
INVESTMENT IN 50% OWNED COMPANIES (Note 1)	495,731	—
FIXED ASSETS, at cost (Note 3):		
Land	48,064	48,064
Buildings, machinery and equipment	4,745,950	4,037,389
	4,794,014	4,085,453
Less: Accumulated depreciation	1,897,023	1,468,837
	2,896,991	2,616,616
OTHER ASSETS:		
Excess of cost of businesses acquired over net tangible assets	1,095,025	1,090,686
Deferred charges (Note 4)	194,677	140,557
Deferred income taxes	18,150	13,400
Other	27,458	13,500
	1,335,310	1,258,143
	$11,473,287	$10,702,131

APPROVED ON BEHALF OF THE BOARD:

G. D. Zimmerman, Director

J. G. Torrance, Director

See accompanying notes to financial statements.

LIABILITIES

	March 31 1971	1970
CURRENT LIABILITIES:		
Bank advances (partly secured by receivables)	$ 1,853,002	$ 772,301
Accounts payable and accrued liabilities	997,358	1,174,407
Income and other taxes payable	37,556	86,954
Current instalments on long-term liabilities	112,040	92,171
	2,999,956	2,125,833
LONG-TERM LIABILITIES (Note 5)	922,035	1,034,155
MINORITY INTEREST	23,400	23,400
	3,945,391	3,183,388
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6):		
5% cumulative redeemable non-voting preference shares, par value $10 each— Authorized — 31,946 shares Issued — Nil		
Common shares, no par value— Authorized — 4,000,000 shares Issued — 2,364,548 shares	3,399,482	3,399,482
RETAINED EARNINGS	4,128,414	4,119,261
	7,527,896	7,518,743
	$11,473,287	$10,702,131

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1971

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of IWC Industries Limited and all subsidiaries.

During the year ended March 31, 1971 the Company acquired ownership of 50% of the common shares of Barrie Cable TV Limited and Orillia Cable TV Limited. The accounts of these companies have not been consolidated as they are not controlled. The Company's share of their earnings since date of acquisition amounting to $36,131 has been included in investment income. The amount in the balance sheet described as "Investment in 50% owned companies" represents the original cost of the investments plus share of earnings less dividends of $10,000 received since the date of acquisition. As at March 31, 1971 the Company's equity in the net assets of the 50% owned companies amounted to $65,000.

2. INVENTORIES:

	MARCH 31 1971	MARCH 31 1970
Raw materials	$ 221,635	$ 293,551
Work in process and uncompleted contracts	932,866	534,511
Finished goods	1,106,600	949,233
	$2,261,101	$1,777,295

Raw materials are valued at the lower of cost or replacement cost. Finished goods, work in process and uncompleted contracts are valued at the lower of cost or net realizable value.

3. FIXED ASSETS:

Fixed assets include machinery used in the operations of a subsidiary company amounting to $262,702 paid for and at present owned by the Government of Canada under a contract whereby the subsidiary is required to repay, without interest, 50% of the cost. Upon payment of the final instalment, due on October 1, 1974 (Note 5), the Government will make grants of the remaining 50% of the cost (which has been deducted from fixed assets in the accompanying balance sheet) after which title to the machinery will pass to the Company.

4. DEFERRED CHARGES:

For a period of up to two years from commencement of operation or expansion of a cable television system, the costs incurred (including depreciation and

interest) less revenues earned are deferred in the accounts to be amortized against earnings over a maximum of five years following the deferment period. Under this policy, net expenses of $194,677 were deferred at March 31, 1971 ($81,636 as at March 31, 1970). Also included in deferred charges as at March 31, 1970 was an amount of $58,921 representing costs associated with applications to obtain cable television licences. Such applications were either not approved or not proceeded with and this amount, together with additional costs incurred in the year ended March 31, 1971, less applicable income taxes, has been written off as an extraordinary item in the accompanying consolidated statement of earnings.

5. LONG-TERM LIABILITIES:

	MARCH 31 1971	1970
Purchase price of preference shares of subsidiary company (subject to adjustment) payable not later than March 31, 1974	$ 84,868	$ 84,868
Additional amount payable for purchase of common shares of a subsidiary company, contingent on future cash flow of the subsidiary	75,000	75,000
Government of Canada capital assistance grant repayable without interest in annual instalments of $26,944 on October 1 of each year with final balance payable October 1, 1974	104,357	131,351
Bank loan payable over five year period beginning 1972	500,000	500,000
6¾% promissory note dated July 1, 1969 payable in annual instalments of $60,000	240,000	300,000
6¾% promissory note dated February 18, 1970 payable in annual instalments of $3,727	14,907	18,634
7% mortgage repayable in monthly instalments of $220 blended principal and interest due May 31, 1978	14,943	16,473
	1,034,075	1,126,326
Deduct: Instalments due within one year included in current liabilities	112,040	92,171
	$ 922,035	$1,034,155

6. CAPITAL STOCK:

Of the authorized and unissued common shares 75,000 are reserved for options granted to employees and officers as follows: 24,000 shares at $3.27 per share, 20,000 shares at $4.79 per share and 31,000 shares at $2.59 per share. The options are exercisable as to 30,200 shares in 1971, 18,200 shares in 1972, 10,200 shares in each of 1973 and 1974, and 6,200 shares in 1975.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers (as defined by The Business Corporations Act, Ontario) for the year ended March 31, 1971 amounted to $96,650 (1970—$92,227).

8. EARNINGS PER SHARE:

The earnings per common share based on the weighted monthly average number of shares outstanding during the respective fiscal years are as follows:

	YEAR ENDED MARCH 31	
	1971	1970
Earnings before extraordinary items	3¢	2¢
Extraordinary items	(2½¢)	87¢
Net earnings for the year	½¢	89¢

9. CONTINGENT LIABILITY:

The Company has guaranteed loans made to 50% owned companies up to an amount of $169,000.

AUDITORS' REPORT

To the Shareholders of
IWC Industries Limited:

We have examined the consolidated balance sheet of IWC Industries Limited and its subsidiaries as at March 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
May 26, 1971.

PRICE WATERHOUSE & CO.
Chartered Accountants

IWC Industries Limited

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IWC Industries Limited

INTERIM REPORT

SIX MONTH PERIOD ENDED SEPTEMBER 30, 1969

To the Shareholders:

Net earnings have varied little from those reported in our more comprehensive outline to you at the end of our first quarter. Minor adjustments have been made to the profit on the sale of our wire and cable business in accord with covenants in the sale agreement.

We are anticipating significant improvement in our manufacturing and construction operations in the last half of the year in view of increased sales and higher prices.

Your company is actively engaged in acquisition negotiations and license applications for CATV systems. Substantial costs related to these activities are being written off against current operations. We believe that we will be in a position to report significant progress in these areas over the next few months.

CONSOLIDATED STATEMENT OF EARNINGS (UNAUDITED)

	Six Month Period Ended Sept. 30, 1969
Gross Operating Revenues	$2,448,000
Earnings from Operations before Income Taxes	40,000
Provision for Income Taxes	10,000
Net Earnings from Operations	30,000
Profit on sale of Wire and Cable business	2,070,000
Net Earnings for the Period	$2,100,000

NOTE:

Like information for the comparable period in the previous year is not shown in comparative form because the basic nature of the business has changed significantly with the sale of the Company's wire and cable operations.

In accord with The Corporations Act of Ontario regulations and Toronto Stock Exchange Policy for the reporting of interim statements, requiring that such interim reports show like information for the comparable period in the previous year, we present below the following condensed statement of earnings for the six month period ended September 30, 1968.

Gross Sales	$11,228,000
Loss from Operations	65,000
Loss—Inventory Revaluation—Copper	200,000
Loss before Income Taxes	265,000
Income Taxes Recoverable	134,000
Net Loss for the period	$ 131,000

IWC Industries Limited

INTERIM REPORT

SIX MONTH PERIOD ENDED SEPTEMBER 30, 1969.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (UNAUDITED)

	Six month period ended September 30	
	1969	**1968**
SOURCE OF FUNDS		
Net Earnings (Loss from Operations)	$ 30,000	$(131,000)
Items not involving a current outlay of funds		
Depreciation	84,000	266,000
Funds from Operations	114,000	135,000
Net Funds provided from sale of Wire and Cable business	5,224,000	—
Proceeds on Sale of Fixed Assets	25,000	29,000
Government of Canada Capital Assistance Grant	8,000	67,000
Reel Deposits	—	104,000
Common Shares Issued		
For Cash	12,000	—
For Shares of Subsidiary	202,000	—
On Conversion of Debentures	500,000	—
	6,085,000	335,000
APPLICATION OF FUNDS		
Additions to Fixed Assets	293,000	378,000
Investment in Unconsolidated Subsidiary	362,000	55,000
Reduction in Long-Term Debt	500,000	25,000
Preproduction Expenses	17,000	81,000
	1,172,000	539,000
RESULTING INCREASE (DECREASE) IN WORKING CAPITAL	4,913,000	(204,000)
WORKING CAPITAL AT BEGINNING OF PERIOD	139,000	2,131,000
WORKING CAPITAL AT END OF PERIOD	$5,052,000	$1,927,000